



**GREATER  
KOKSTAD  
MUNICIPALITY**

PROVINCE OF KWAZULU-NATAL

Greater Kokstad Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2014

# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **General Information**

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### **MEMBERS OF THE COUNCIL**

Cllr NT Jojozi	<b>Mayor</b>
Cllr ZA Mhlongo	<b>Speaker</b>
Cllr BM Mtolo	<b>Deputy Mayor</b>
Cllr JL Kotting	<b>Member of Executive Committee</b>
	1/07/2013 - 20/04/2014
Cllr NC Nyembezi	<b>Member of Executive Committee</b>
	27 /06/2014 - 30/06/2014
Cllr PX Xelitole	Member
Cllr TM Mohlakoana	Member
Cllr LJ Sithole	Member
Cllr MM Nondabula	Member
Cllr TO Madikizela	Member
Cllr NT Mqikela	Member
Cllr MNL Madikizela	Member
Cllr V Ncukana	Member
Cllr N Mavuka	Member
Cllr P Nocanda	Member
Cllr MN Dlakavu	Member
Cllr KJ Walker	Member

### **GRADING OF LOCAL AUTHORITY**

Level 7

### **MUNICIPAL MANAGER**

Mr F.T. Nxumalo 01/07/2013 - 26/09/2013  
Mr N Msuya 01/10/2013 -31/01/2014 (Acting)  
Mr Z.J. Mkhize 05/02/2014 - 30/06/2014

### **CHIEF FINANCIAL OFFICER (CFO)**

Mrs N.D. Gqola

### **PHYSICAL ADDRESS**

75 Hope Street  
Kokstad  
4700

### **POSTAL ADDRESS**

P O Box 08  
Kokstad  
4700

### **BANKERS**

FNB

### **AUDITORS**

Auditor General South Africa (AGSA)

### **TELEPHONE NUMBER**

039-797-6600

### **FAX NUMBER**

039-797-3676

### **E-MAIL ADDRESS**

municipality@kokstad.gov.za

# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2014

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The reports and statements set out below comprise the annual financial statements presented to the council:

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# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Officer's Responsibilities and Approval**

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I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 59 in terms of section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the municipality.

I certify that the salaries, allowances and benefits of councillors, loans made to councillors, if any, and payments made to councillors for loss of office, if any, as disclosed in note 24 of these annual financial statements are within the upper limits of the framework envisaged in section 219 of the constitution, read with the Remuneration of Public Officers Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act

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**Municipal Manager**  
**Mr Z. J. Mkhize**  
**31 August 2014**

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Financial Position as at 30 June 2014

	Note(s)	2014 R	2013 R
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	2	13,522,547	3,453,711
Trade Receivables	3	14,616,323	19,158,041
Receivables from non-exchange transactions	4	1,537,516	835,302
Inventories	5	314,230	377,288
Prepayments	6	429,905	108,023
VAT receivable	8	1,342,432	889,345
		<b>31,762,953</b>	<b>24,821,710</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	9	481,978,056	482,791,151
Intangible assets	10	25	39,109
Investment property	11	22,161,250	22,161,250
Heritage assets	12	1,232,325	1,232,325
		<b>505,371,656</b>	<b>506,223,835</b>
Non-current assets held for sale and assets of disposal groups	46	741,600	741,600
<b>Total Assets</b>		<b>537,876,209</b>	<b>531,787,145</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Bank overdraft	2	-	3,977,001
Consumer deposits	7	3,966,281	3,776,365
Payables from exchange transactions	13	28,284,118	50,599,619
Provisions	14	4,378,768	2,719,469
Unspent conditional grants and receipts	15	4,783,230	3,242,429
Current portion of long term borrowings	16	797,075	705,830
Finance lease obligation	17	2,024,819	2,103,888
Deferred income		1,250,000	1,250,000
		<b>45,484,291</b>	<b>68,374,601</b>
<b>Non-Current Liabilities</b>			
Borrowings	16	1,426,493	2,185,152
Finance lease obligation	17	5,530,363	7,548,550
Employee benefit obligation	34	15,998,295	14,098,647
		<b>22,955,151</b>	<b>23,832,349</b>
<b>Total Liabilities</b>		<b>68,439,442</b>	<b>92,206,950</b>
<b>Net Assets</b>			
Accumulated surplus		469,436,767	439,580,195

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Financial Performance

	Note(s)	2014 R	2013 R
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	19	96,956,761	91,833,681
Rental of facilities and equipment		687,725	816,858
Licences and permits		3,346,743	3,691,518
Recoveries		872,435	299,730
Other income		745,996	-
Interest received - investment		1,049,476	432,490
<b>Total revenue from exchange transactions</b>		<b>103,659,136</b>	<b>97,074,277</b>
<b>Revenue from non-exchange transactions</b>			
Property rates	18	83,222,528	67,242,328
Interest received - outstanding receivables	18	2,543,129	4,016,278
Government grants & subsidies	20	86,654,894	85,138,416
Public contributions and donations	21	176,069	1,870,616
Fines		1,262,661	388,603
Greenest Municipality Award		-	100,000
Provision for bad debts recovery		3,647,661	1,558,372
<b>Total revenue from non-exchange transactions</b>		<b>177,506,942</b>	<b>160,314,613</b>
<b>Total revenue</b>		<b>281,166,078</b>	<b>257,388,890</b>
<b>Expenditure</b>			
General Expenses	22	(44,639,007)	(70,614,980)
Employee costs	23	(87,053,374)	(87,670,120)
Remuneration of councillors	24	(4,554,910)	(4,268,233)
Depreciation and amortisation	25	(38,900,272)	(33,224,699)
Finance costs	26	(1,562,465)	(1,092,008)
Bulk purchases	27	(60,069,549)	(61,779,836)
Debt impairment	28	(12,762,825)	(13,228,124)
Repairs and maintenance		(1,767,104)	(3,585,675)
Collection costs		-	(2,084,941)
<b>Total expenditure</b>		<b>(251,309,506)</b>	<b>(277,548,616)</b>
<b>Operating surplus (deficit)</b>		<b>29,856,572</b>	<b>(20,159,726)</b>
Gain on disposal of assets and liabilities		-	423,905
Fair value adjustments	40	-	(810,514)
		-	<b>(386,609)</b>
<b>Surplus (deficit) for the year</b>		<b>29,856,572</b>	<b>(20,546,335)</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
<b>Balance at 01 July 2012</b>	<b>461,446,962</b>	<b>461,446,962</b>
Changes in net assets		
Correction of error	(116,266)	(116,266)
Prior period correction of error - WIP	(233,378)	(233,378)
Correction of prior period lease	91,689	91,689
Accrual underestimated in prior year	(1,062,477)	(1,062,477)
Net income recognised directly in net assets	(1,320,432)	(1,320,432)
Loss for the year	(20,546,335)	(20,546,335)
Total recognised income and expenses for the year	(21,866,767)	(21,866,767)
Total changes	(21,866,767)	(21,866,767)
<b>Balance at 01 July 2013</b>	<b>439,580,195</b>	<b>439,580,195</b>
Changes in net assets		
Surplus for the period	29,856,572	29,856,572
Total changes	29,856,572	29,856,572
<b>Balance at 30 June 2014</b>	<b>469,436,767</b>	<b>469,436,767</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Cash Flow Statement

	Note(s)	2014 R	2013 R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		177,570,394	157,880,371
Grants		88,195,695	82,895,083
Interest income		1,049,476	432,490
Other receipts		10,326,827	3,391,150
		<b>277,142,392</b>	<b>244,599,094</b>
<b>Payments</b>			
Employee costs		(88,836,201)	(89,912,658)
Suppliers		(130,770,113)	(121,970,661)
Finance costs		(1,562,465)	(1,092,008)
Other payments		(1,115,648)	(2,854,759)
		<b>(222,284,427)</b>	<b>(215,830,086)</b>
<b>Net cash flows from operating activities</b>	29	<b>54,857,965</b>	<b>28,769,008</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	9	(38,048,861)	(45,079,849)
Proceeds from sale of property, plant and equipment	9	1,403	423,905
<b>Net cash flows from investing activities</b>		<b>(38,047,458)</b>	<b>(44,655,944)</b>
<b>Cash flows from financing activities</b>			
Movement in borrowings		(667,414)	(629,281)
Movement in retention		-	1,250,000
Finance lease movement		(2,097,256)	6,513,749
<b>Net cash flows from financing activities</b>		<b>(2,764,670)</b>	<b>7,134,468</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>14,045,837</b>	<b>(8,752,468)</b>
Cash and cash equivalents at the beginning of the year		(523,290)	8,229,178
<b>Cash and cash equivalents at the end of the year</b>	2	<b>13,522,547</b>	<b>(523,290)</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Original budget R	Budget Adjustments (i.t.o. s28 & s31 Of The MFMA) R	Final Budget R	Actual outcome R	Variance (Refer to note 31) R
<b>Statement of Financial Performance</b>					
<b>Revenue</b>					
<b>Revenue from exchange transactions</b>					
Service charges	101,466,000	(1,638,000)	<b>99,828,000</b>	100,216,886	<b>388,886</b>
Rental of facilities and equipment	1,162,000	(472,000)	<b>690,000</b>	687,725	(2,275)
Licences and permits	3,000,000	500,000	<b>3,500,000</b>	3,346,743	(153,257)
Recoveries	-	-	-	1,321,030	<b>1,321,030</b>
Other income	2,035,416	(745,282)	<b>1,290,134</b>	1,007,823	(282,311)
Investment revenue	450,000	233,000	<b>683,000</b>	1,049,476	<b>366,476</b>
<b>Total revenue from exchange transactions</b>	<b>108,113,416</b>	<b>(2,122,282)</b>	<b>105,991,134</b>	<b>107,629,683</b>	<b>1,638,549</b>
<b>Revenue from non-exchange transactions</b>					
Property rates	121,099,000	(40,042,000)	<b>81,057,000</b>	83,222,528	<b>2,165,528</b>
Property rates - penalties imposed	2,811,000	(1,011,000)	<b>1,800,000</b>	2,543,129	<b>743,129</b>
Transfer recognised - Operational & Capital	146,955,000	(45,085,000)	<b>101,870,000</b>	86,654,894	(15,215,106)
Public contributions and donations	100,000	155,000	<b>255,000</b>	176,069	(78,931)
Fines	1,000,000	(700,000)	<b>300,000</b>	1,262,661	<b>962,661</b>
Provision for bad debts recovery	3,456,000	(3,456,000)	-	-	-
<b>Total revenue from non-exchange transactions</b>	<b>275,421,000</b>	<b>(90,139,000)</b>	<b>185,282,000</b>	<b>173,859,281</b>	<b>(11,422,719)</b>
<b>Total revenue</b>	<b>383,534,416</b>	<b>(92,261,282)</b>	<b>291,273,134</b>	<b>281,488,964</b>	<b>(9,784,170)</b>
<b>Expenditure</b>					
Employee costs	89,180,000	(4,708,665)	<b>84,471,335</b>	(87,053,374)	(2,582,039)
Remuneration of councillors	4,880,000	(34,864)	<b>4,845,136</b>	(4,554,910)	290,226
Depreciation and asset impairment	25,000,000	15,000,000	<b>40,000,000</b>	(38,900,272)	1,099,728
Finance charges	2,990,000	(819,000)	<b>2,171,000</b>	(1,562,465)	608,535
Debt impairment	5,000,000	10,000,000	<b>15,000,000</b>	(12,762,825)	2,237,175
Repairs and maintenance	6,473,000	(2,415,000)	<b>4,058,000</b>	(1,767,104)	2,290,896
Material & Bulk purchases	64,487,000	5,513,000	<b>70,000,000</b>	(60,069,549)	9,930,451
Other expenditure	48,079,621	764,122	<b>48,843,743</b>	(44,639,007)	4,204,736
<b>Total expenditure</b>	<b>246,089,621</b>	<b>23,299,593</b>	<b>269,389,214</b>	<b>(251,309,506)</b>	<b>18,079,708</b>
<b>Surplus</b>	<b>629,624,037</b>	<b>(68,961,689)</b>	<b>560,662,348</b>	<b>30,179,458</b>	<b>(530,482,890)</b>
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>629,624,037</b>	<b>(68,961,689)</b>	<b>560,662,348</b>	<b>30,179,458</b>	<b>(530,482,890)</b>

# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

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### **1. Presentation of Annual Financial Statements**

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

#### **1.1 Presentation currency**

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### **1.2 Going concern assumption**

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### **1.3 Standards issued but not effective**

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

- GRAP 18 Segment Reporting
- GRAP 20 Related Party Disclosures
- GRAP 32 Service Concession Arrangements
- GRAP 105 Transfer of Function Between Entities Under Common Control
- GRAP 106 Transfer of Function Between Entities Not Under Common Control
- GRAP 107 Mergers
- GRAP 108 Statutory Receivables

Adoption of these standards will have no material impact on future financial periods..

#### **Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

#### **Allowance for doubtful debts**

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

#### **1.4 Investment property**

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction cost once it meets the definition of investment property. Investment Property is initially recognised when future economic benefits or service potential are probable and the cost or fair value can be determined reliably

The cost of self-constructed investment property is the cost at date of completion.

# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

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### **1.4 Investment property (continued)**

#### **Subsequent measurement -Fair value model**

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

#### **Derecognition**

Investment property is derecognised when there is a disposal or no future economic benefits or service potential are to be derived from the property.

All gains or losses, which result from the derecognition, are recognised in the Statement of Financial Performance.

### **1.5 Property, plant and equipment**

#### **1.4.1 Initial recognition**

Property, plant and equipment are tangible non-current assets ( Including infrastructure assets) that are held for use in the production or supply of goods and services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

#### **1.4.2 Initial measurement**

Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. These assets have been revalued in line with the transitional provisions, Directive 4, and have been recorded at Depreciated Replacement Cost. The cost of items of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

#### **1.4.3 Subsequent Measurement - Cost model**

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

#### **1.4.4 Depreciation and impairment**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have useful lives are depreciated separately.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

Land is not depreciated as it is deemed to have an indefinite useful life.

Capital work in progress is not depreciable until it is transferred to the applicable property, plant and equipment category once it is ready and available for its intended use.

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount ( or recoverable service amount) and an impairment amount is charged to the Statement of Financial Performance.

The annual depreciation rates are based on the following estimated average asset lives.

Item	Average useful life
Buildings	80 years
Motor vehicles	5 - 7 years
Infrastructure	
• Roads and pavings	20 years
• Bridges	30 years
• Storm water	15 years
• Gravel	20 years
• Substation and Transformers	40 years
• Poles, Cables and Lights	15 - 25 years
• Robots	10 years
Community	
• Buildings	80 years
• Recreational facilities	5 years
• Security system	5 years
• Dams	1 - 15 years
• Libraries	15 - 20 years
• Parks and Gardens	15 years
• Cemeteries	15 - 20 years
• Community centres	5 - 20 years
• Computer equipment	3 - 5 years
Other property, plant and equipment	
• Emergency equipment	5 years
• Landfill sites	15 years
• Office equipment	5 years
• Furniture and Fittings	5 years
• Bins and containers	5 years
• Plant and equipment	5 - 7 years
• Other	5 years

### 1.4.5 Derecognition

Items of property, plant and equipment are derecognised when the asset is disposed of or when there is no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

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### **1.6 Heritage assets**

#### **Initial Recognition**

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations. A heritage asset shall be recognised as an asset if, and only if:

- (a) it is probable that future economic benefits or service potential associated with the asset will flow to the entity, and
- (b) the cost or fair value of the asset can be measured reliably.

#### **Initial Measurement**

An asset that has met the recognition requirement criteria for heritage assets shall be measured at its cost if such an asset has been acquired through an exchange transaction.

Where a heritage asset has been acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

#### **Subsequent Measurement**

Heritage assets are not depreciated based on their nature however the municipality assesses at each reporting date whether there is a need for impairment.

The class of heritage assets are carried at its cost less any accumulated impairment losses.

#### **Derecognition**

The carrying amount of a heritage asset is derecognised:

- (a) on disposal, or
- (b) when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

### **1.7 Intangible Asset**

#### **Initial Recognition**

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential;
- the municipality has the ability to measure reliably the expenditure during development."

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

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### **1.7 Intangible Asset (continued)**

#### **Subsequent measurement**

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Residual value of intangible assets is estimated to be zero. Fully depreciated assets which are still in use are not written off.

#### **Amortisation**

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software	3 - 5 years
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The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

#### **Derecognition**

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

### **1.8 Financial instruments**

The municipality has various types of financial instruments and these can be broadly categorised as either Financial Assets or Financial Liabilities.

#### **Financial Assets - Classification**

A financial asset is any asset consisting of cash or a contractual right to receive cash. The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Investments in Fixed Deposits (Banking Institutions, etc)
- Unlisted investments
- Consumer Debtors
- Certain Other Debtors.
- Short-term Investment Deposits
- Bank Balances and Cash
- 

In accordance with GRAP 104, the Financial Assets of the municipality are classified as follows into the categories allowed by this standard:

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.8 Financial instruments (continued)

Type of Financial Asset	Classification in terms of GRAP 104
Short-term Investment Deposits – Call	Financial assets at amortised cost
Bank Balances and Cash	Financial assets at amortised cost
Long-term Receivables	Financial assets at amortised cost
Consumer Debtors	Financial assets at amortised cost
Other Debtors	Financial assets at amortised cost
Investments in Fixed Deposits	Financial assets at amortised cost

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets.

Cash and cash equivalents include cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets held at amortised cost.

#### Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Long-term Liabilities
- Trade and other payables
- Bank Overdraft
- Short-term loans

Financial Liabilities of the municipality are classified into the following category as allowed by this standard

- Financial liabilities at amortised cost.

Financial liabilities at amortised cost are initially measured at fair value, net of transaction costs. These are subsequently measured at amortised cost using the Effective interest method, with interest expense recognised on an effective yield basis.

#### Initial and Subsequent Measurement

##### Financial Assets:

Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the effective interest method less, any impairment, with interest recognised on an effective yield basis in surplus /deficit.

Financial assets are recognised on the trade date at which the municipality becomes party to the contractual provisions of the instrument.

##### Financial Liabilities

Financial Liabilities at amortised cost are initially measured at fair value net of transaction costs.

Subsequently, these liabilities are measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Financial liabilities are recognised on the trade date at which the municipality becomes a party to the contractual provisions of the instrument.

##### Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence of impairment of financial assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104

An allowance for impairment based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable and are recognized in surplus or deficit for the year.

An allowance for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables.

# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

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### **1.8 Financial instruments (continued)**

Changes in the carrying amount of the allowance for impairment are recognized in surplus or deficit for the year.

#### **Derecognition of Financial Assets**

The municipality derecognises financial assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of financial assets due to non-recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

#### **Derecognition of Financial Liabilities**

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

### **1.9 Leases**

#### **The Municipality as lessee**

##### **Recognition**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payment due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payment, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

##### **Measurement**

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies application to property, plant and equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayments using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies related to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful lives or the lease term.

# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

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### **1.9 Leases (continued)**

#### **The Municipality as Lessor**

##### **Recognition**

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset ( receivable). The receivables is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease installments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies related to derecognition and impairment of financial instruments are applied to lease receivables.

Rental income from operating leases is recognised in a straight- line basis over the term of relevant lease.

##### **Measurement.**

##### **Operating leases - lessee**

Payments made under operating leases are charged to the statement of financial position on a straight line basis over the period of the lease

##### **Operating leases - lessor**

Assets leased to third parties under operating lease are included in investment property in the Statement of Financial Position. The assets are depreciated over their expected useful lives on a basis consistent with similar owned investment property. Rental income is recognised over the lease terms.

##### **Derecognition**

Finance lease receivables are derecognised when the entity's right to the underlying cash flows expire or when the entity no longer expects economic benefits to flow from the finance lease receivable.

Operating lease liabilities are derecognised when the entity's obligation to provide economic benefits or service potential under the lease agreement expires. Operating lease assets are derecognised when the entity's right to the underlying cash flows expire or the entity no longer expects economic benefits to flow from the operating lease asset.

### **1.10 Inventories**

#### **Initial recognition & measurement**

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

#### **Subsequent Measurement**

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

#### **Derecognition**

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

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### **1.11 Non-current assets held for sale and disposal groups**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

### **1.12 Impairment of cash-generating assets**

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

### **1.13 Conditional grants and receipts**

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

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### **1.14 Post-employee benefits**

#### **Short-term employee benefits**

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occur.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### **Post-employment benefits**

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

#### **Defined contribution plans**

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.14 Post-employee benefits (continued)

#### Defined benefit plans

Defined benefit plans are provisions for long service awards and post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

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### **1.14 Post-employee benefits (continued)**

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

### **1.15 Provisions**

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

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### **1.15 Provisions (continued)**

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### **1.16 Revenue from exchange transactions**

#### **Recognition**

Revenue from exchange transactions is only recognised once all of the following criteria have been satisfied:

- a) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- b) The amount of revenue can be measured reliably; and
- c) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

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### **1.16 Revenue from exchange transactions (continued)**

#### **Measurement**

Revenue from exchange transactions is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

Service charges relating to electricity and water are based on consumption. Meters are read on a quarterly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.s.

#### **Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

### **1.17 Revenue from non-exchange transactions**

#### **Recognition**

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### **Measurement**

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Policies**

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### **1.18 Value Added Taxation**

The Municipality accounts for Value Added Tax on the payment basis. This means that VAT is declared to the South African Revenue Services as input VAT or output VAT only when payments are made to suppliers or payments are received for goods or services. The net output VAT on debtors where money has not been received or creditors where payment has not yet been made is disclosed separately in the Statement of Financial Position in terms of GRAP 1

### **1.19 Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

### **1.20 Unauthorised expenditure**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the period that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.21 Fruitless and wasteful expenditure**

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the period that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.22 Irregular expenditure**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### **1.23 Budget information**

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2013/07/01 to 2014/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

	2014 R	2013 R
<b>2. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	12,333	33,317
Bank balances	4,162,928	-
Call deposits	9,347,286	3,420,394
Bank overdraft	-	(3,977,001)
	<b>13,522,547</b>	<b>(523,290)</b>
Current assets	13,522,547	3,453,711
Current liabilities	-	(3,977,001)
	<b>13,522,547</b>	<b>(523,290)</b>

### The municipality had the following bank accounts

Account number	Bank statement balances		Cash book balances	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
FNB - 527 2002 4258 - Primary Account	3,758,685	(2,401,401)	4,162,928	(3,977,001)
FNB - 620 4994 7825	60,001	64,070	60,001	64,070
FNB - 622 9521 8947	3,422	5,089	3,423	5,089
FNB - 620 6810 2682	26,693	26,425	26,692	26,425
FNB - 620 8937 2868	2,153,484	1,131	2,153,484	1,131
FNB - 620 8992 7663	1,184	7,397	1,184	7,397
FNB - 621 9170 1476	61,599	14,509	61,599	14,509
FNB - 621 0368 9230	1,243,325	1,199,600	1,243,325	1,199,600
NED - 7165 013660	48,962	1,707	-	293
FNB - 621 9024 8221	1,819,417	1,755,354	1,819,416	1,755,354
STD - 308 6440 85	3,084,682	12,589	3,084,682	12,557
NED - 037 1650 13687	439,105	-	439,105	(106)
FNB - 623 0064 1611	2,133	2,111	2,133	2,111
STD - 308 6485 36	-	331,256	-	331,256
NED - 7165 013687	-	8,171	48,962	1,000
NED - 03 7165014276	403,280	-	403,280	-
<b>Total</b>	<b>12,702,692</b>	<b>1,028,008</b>	<b>13,510,214</b>	<b>(556,315)</b>

### 3. Trade receivables

#### Gross balances

Rates from non exchange transactions	15,960,366	14,349,755
Electricity from exchange transactions	6,763,497	6,883,571
Refuse from exchange transactions	6,295,729	22,396,871
Fire Levy from exchange transactions	4,706,351	930,657
Add : Debtors with credit balances	3,903,724	-
	<b>37,629,667</b>	<b>44,560,854</b>

#### Less: Allowance for impairment

Rates from non exchange transactions	(12,755,842)	(7,760,857)
Electricity from exchange transactions	(521,435)	(4,019,703)
Refuse from exchange transactions	(5,345,670)	(13,078,790)
Fire Levy from exchange transactions	(4,390,397)	(543,463)
	<b>(23,013,344)</b>	<b>(25,402,813)</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

	2014 R	2013 R
<b>3. Trade receivables (continued)</b>		
<b>Net balance</b>		
Rates from non exchange transactions	3,204,524	6,588,898
Electricity from exchange transactions	6,242,062	2,863,868
Refuse from exchange transactions	950,059	9,318,081
Fire Levy from exchange transactions	315,954	387,194
Add: Debtors with credit balances	3,903,724	-
	<b>14,616,323</b>	<b>19,158,041</b>
<b>Rates from non exchange transactions</b>		
Current (0 -30 days)	2,891,041	1,737,126
31 - 60 days	1,367,694	541,402
61 - 90 days	645,789	378,505
91 - 120 days	461,705	324,772
121 - 365 days	10,594,137	11,367,950
	<b>15,960,366</b>	<b>14,349,755</b>
<b>Electricity from exchange transactions</b>		
Current (0 -30 days)	5,368,579	2,006,897
31 - 60 days	761,310	896,919
61 - 90 days	113,743	824,134
91 - 120 days	86,797	156,624
121 - 365 days	433,068	2,998,997
	<b>6,763,497</b>	<b>6,883,571</b>
<b>Refuse from exchange transactions</b>		
Current (0 -30 days)	942,061	1,295,588
31 - 60 days	564,488	868,653
61 - 90 days	348,561	4,154,955
91 - 120 days	291,554	709,937
121 - 365 days	4,149,065	15,367,738
	<b>6,295,729</b>	<b>22,396,871</b>
<b>Fire Levy from exchange transactions</b>		
Current (0 -30 days)	913,637	52,817
31 - 60 days	281,592	37,583
61 - 90 days	(223,968)	119,419
91 - 120 days	(201,963)	34,138
121 - 365 days	3,937,052	686,701
	<b>4,706,350</b>	<b>930,657</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

	2014 R	2013 R
<b>3. Trade receivables (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	2,137,899	5,771,352
31 - 60 days	1,908,050	-
61 - 90 days	586,990	5,458,065
91 - 120 days	427,172	1,207,387
121 - 365 days	<u>17,610,722</u>	29,331,680
<b>Add: Debtors with credit balances</b>	<u>22,670,833</u>	41,768,484
Allowance for impairment	<u>(23,013,344)</u>	(25,402,813)
	<b><u>3,561,213</u></b>	<b><u>16,365,670</u></b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	6,108,480	-
31 - 60 days	1,064,178	-
61 - 90 days	306,388	-
91 - 120 days	233,620	-
121 - 365 days	173,135	-
> 365 days	<u>1,673,044</u>	-
	<b><u>9,558,845</u></b>	-
<b>National and provincial government</b>		
Current (0 -30 days)	1,868,939	-
31 - 60 days	2,856	1,665,633
61 - 90 days	(9,253)	18,948
91 - 120 days	(22,698)	(18,084)
121 - 365 days	(5,045)	(30,087)
> 365 days	<u>(338,534)</u>	-
	<b><u>1,496,265</u></b>	<b><u>1,636,410</u></b>
<b>Total</b>		
Current (0 -30 days)	10,115,318	7,436,985
31 - 60 days	2,975,084	5,477,013
61 - 90 days	884,125	1,189,303
91 - 120 days	638,094	29,397,935
121 - 365 days	<u>19,113,322</u>	1,059,618
	<b><u>33,725,943</u></b>	<b><u>44,560,854</u></b>
<b>Add: Debtors with credit balances</b>	<u>3,903,724</u>	-
Allowance for impairment	<u>(23,013,344)</u>	(25,402,813)
	<b><u>14,616,323</u></b>	<b><u>19,158,041</u></b>
<b>Allowance for impairment</b>		
Current (0 -30 days)	(2,464,206)	(2,686,275)
31 - 60 days	(1,178,532)	(1,284,739)
61 - 90 days	(2,571,345)	(2,803,069)
91 - 120 days	(696,406)	(759,165)
121 - 365 days	<u>(16,102,855)</u>	(17,869,565)
	<b><u>(23,013,344)</u></b>	<b><u>(25,402,813)</u></b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

	2014 R	2013 R
<b>3. Trade receivables (continued)</b>		
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(25,402,813)	(26,961,185)
Reversal of allowance	2,389,469	1,558,372
	<b>(23,013,344)</b>	<b>(25,402,813)</b>
<b>Consumer debtors past due but not impaired</b>		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	1,700,758	-
2 months past due	840,067	-
3 months past due	862,855	-
<b>4. Receivables from non-exchange transactions</b>		
Sundry debtors	<b>1,537,516</b>	<b>835,302</b>
<b>5. Inventories</b>		
Stores, materials and fuels	<b>314,230</b>	<b>377,288</b>
Inventories consists of consumerables and fuels.		
<b>6. Prepayments</b>		
Prepayments	<b>429,905</b>	<b>108,023</b>
Licence fees for computer software were prepaid.		
<b>7. Consumer deposits</b>		
Electricity	<b>3,966,281</b>	<b>3,776,365</b>
<b>8. VAT receivable</b>		
VAT	<b>1,342,432</b>	<b>889,345</b>
VAT is declared on the receipt basis.		

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

	2014 R	2013 R
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### 9. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	125,606,564	(83,366,247)	42,240,317	124,185,191	(81,457,714)	42,727,477
Motor vehicles	8,213,254	(4,322,060)	3,891,194	8,213,254	(2,765,370)	5,447,884
Infrastructure	527,315,976	(215,136,338)	312,179,638	514,665,371	(186,428,897)	328,236,474
Community	118,701,124	(84,768,655)	33,932,469	118,701,124	(82,261,230)	36,439,894
Other property, plant and equipment	24,254,074	(14,060,033)	10,194,041	25,301,375	(10,950,383)	14,350,992
Capital work in progress	79,540,397	-	79,540,397	55,588,430	-	55,588,430
<b>Total</b>	<b>883,631,389</b>	<b>(401,653,333)</b>	<b>481,978,056</b>	<b>846,654,745</b>	<b>(363,863,594)</b>	<b>482,791,151</b>

### Reconciliation of property, plant and equipment - 30 June 2014

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land and Buildings	42,727,477	-	-	1,421,372	(1,908,532)	42,240,317
Motor vehicles	5,447,884	-	-	-	(1,556,690)	3,891,194
Infrastructure	328,236,474	491,981	-	12,158,624	(28,707,441)	312,179,638
Community	36,439,894	-	-	-	(2,507,425)	33,932,469
Other property, plant and equipment	14,350,992	24,917	(1,403)	-	(4,180,465)	10,194,041
Capital work in progress	55,588,430	37,531,963	-	(13,579,996)	-	79,540,397
<b>Total</b>	<b>482,791,151</b>	<b>38,048,861</b>	<b>(1,403)</b>	<b>- (38,860,553)</b>	<b>481,978,056</b>	

### Reconciliation of property, plant and equipment - 30 June 2013

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Total
Land and Buildings	45,234,399	-	(591,600)	-	(1,915,322)	42,727,477
Motor vehicles	4,322,278	2,541,564	-	-	(1,415,958)	5,447,884
Infrastructure	349,934,497	-	3,424,007	-	(25,122,030)	328,236,474
Community	37,228,910	-	(150,000)	1,870,616	(2,509,632)	36,439,894
Other property, plant and equipment	10,289,657	6,162,555	-	-	(2,101,220)	14,350,992
Capital work in progress	22,831,707	36,375,730	(3,619,007)	-	-	55,588,430
<b>Total</b>	<b>469,841,448</b>	<b>45,079,849</b>	<b>(936,600)</b>	<b>1,870,616</b>	<b>(33,064,162)</b>	<b>482,791,151</b>

### Assets subject to finance lease (Net carrying amount)

Motor vehicles	3,891,194	4,533,493
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A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

		2014 R	2013 R
<b>10. Intangible assets</b>			
		2014	2013
		Cost	Accumulated amortisation and accumulated impairment
		Carrying value	Cost
		and accumulated impairment	Accumulated amortisation and accumulated impairment
Computer software		2,180,556	(2,180,531)
		25	2,180,556
		(2,141,447)	39,109

### Reconciliation of intangible assets - 30 June 2014

	Opening balance	Amortisation	Total
Computer software	39,109	(39,084)	25

### Reconciliation of intangible assets - 30 June 2013

	Opening balance	Amortisation	Total
Computer software	199,647	(160,538)	39,109

## 11. Investment property

		2014		2013	
		Cost	Accumulated Impairment	Carrying value	Cost
		Cost	Accumulated Impairment	Carrying value	
Investment property - Land & Buildings		22,161,250	-	22,161,250	22,161,250

### Reconciliation of investment property - 30 June 2014

	Opening balance	Total
Investment property - Land & Buildings	22,161,250	22,161,250

### Reconciliation of investment property - 30 June 2013

	Opening balance	Fair value adjustments	Total
Investment property - Land & Buildings	22,971,764	(810,514)	22,161,250

## 12. Heritage assets

		2014		2013	
		Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation
		Cost / Valuation	Accumulated impairment losses	Carrying value	
Museum		1,232,325	-	1,232,325	1,232,325

### Reconciliation of heritage assets - 30 June 2014

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

	2014 R	2013 R		
<b>12. Heritage assets (continued)</b>				
Museum	Opening balance 1,232,325	Total 1,232,325		
<b>Reconciliation of heritage assets - 30 June 2013</b>				
Museum	Opening balance 1,232,325	Total 1,232,325		
<b>13. Payables from exchange transactions</b>				
Trade payables	4,386,026	8,107,531		
Accrued leave pay	5,261,787	6,256,402		
Other payables	10,163,510	30,946,814		
Add: Debtors with credit balances	3,913,041	3,275,030		
Retention	1,080,126	2,013,842		
Creditor accruals	3,479,628	-		
	<b>28,284,118</b>	<b>50,599,619</b>		
<b>14. Provisions</b>				
<b>Reconciliation of provisions - 30 June 2014</b>				
Provision for performance bonus	Opening Balance 2,719,469	Additions 2,917,491	Utilised during the year (1,258,192)	Total 4,378,768
<b>Reconciliation of provisions - 30 June 2013</b>				
Provision for performance bonus	Opening Balance 2,321,312	Additions 1,500,665	Utilised during the year (1,102,508)	Total 2,719,469
<b>15. Unspent conditional grants and receipts</b>				
<b>Unspent conditional grants and receipts comprises of:</b>				
Horseshoe Township	1,243,325	1,199,600		
Municipal Infrastructure Grant	6,525	2,546		
IDP Community participation	85,672	85,672		
Peoples Housing Project 12 and 13	26,693	26,425		
Small Town Rehabilitation	3,219,420	-		
Housing account	-	1,925,086		
Sports & Recreation	201,595	3,099		
	<b>4,783,230</b>	<b>3,242,428</b>		

### Housing account:

The municipality is an implementing agent, it does not generate any proceeds from the construction of houses.

## 16. Borrowings

The following loan bears interest at 12.26% per annum, with bi-annual instalments of R327 267.29 in December and June. The loan is repayable by 31 December 2016 and the capital portion amounts to R2 223 568.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

	2014 R	2013 R
<b>16. Borrowings (continued)</b>		
<b>Bhekintaba Station</b>		
Current Borrowings	797,075	705,830
Non - Current Borrowings	1,426,493	2,185,152
	<b>2,223,568</b>	<b>2,890,982</b>

## 17. Finance lease obligation

<b>Minimum lease payments due</b>		
- within one year	2,984,661	3,108,354
- in second to fifth year inclusive	6,605,252	9,010,232
	<hr/>	<hr/>
less: future finance charges	9,589,913	12,118,586
	(2,034,731)	(2,466,148)
<b>Present value of minimum lease payments</b>	<b>7,555,182</b>	<b>9,652,438</b>
<b>Present value of minimum lease payments due</b>		
- within one year	2,024,819	2,103,888
- in second to fifth year inclusive	5,530,363	7,548,550
	<hr/>	<hr/>
Non-current liabilities	5,530,363	7,548,550
Current liabilities	2,024,819	2,103,888
	<hr/>	<hr/>
<b>7,555,182</b>	<b>9,652,438</b>	

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

	2014 R	2013 R
<b>18. Property rates</b>		
<b>Rates received</b>		
Residential	40,041,440	33,753,969
Commercial	32,470,899	18,432,947
Public service infrastructure	41,567	60,024
Government	30,105,404	30,282,601
Industrial	8,382,387	10,403,232
Agriculture	3,250,809	2,849,351
Sectional titles	1,551,683	1,724,588
Less: Rates rebates	<u>(32,621,661)</u>	<u>(30,264,384)</u>
Interest received - outstanding receivables	83,222,528	67,242,328
	<u>2,543,129</u>	<u>4,016,278</u>
	<b>85,765,657</b>	<b>71,258,606</b>

### Valuations

Residential	2,023,617,480	2,023,617,480
Commercial	534,242,100	534,242,100
Public benefit organisation	140,962,500	140,962,500
Municipal	55,636,400	55,636,400
Government	2,155,331,300	2,355,331,300
Industrial	289,215,600	289,215,600
Agricultural	960,870,700	960,670,700
Public service infrastructure	17,707,200	17,707,200
Multipurpose	19,896,700	19,896,700
	<b>6,197,479,980</b>	<b>6,397,279,980</b>

### 19. Service charges

Sale of electricity	86,010,669	79,489,314
Refuse removal	9,241,184	10,158,149
Other service charges	1,704,908	2,186,218
<b>96,956,761</b>		

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

	2014 R	2013 R
<b>20. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	47,950,000	48,477,000
MSIG Project Consolidate	890,000	800,000
FMG	1,550,000	1,500,000
Sport and Recreation	301,504	146,901
IDP Grant	-	114,327
Expanded Public Works Programme	1,000,000	946,000
Shayamoya Eco Complex	1,209,510	-
Municipal Excellence Award	-	1,000,000
Development of light ind. park	6,127,419	-
Arts and Culture	1,461,000	744,830
	<b>60,489,433</b>	<b>53,729,058</b>
<b>Capital grants</b>		
Small Town Rehabilitation	4,780,580	2,948,646
Municipal Infrastructure Grant	18,338,021	19,317,454
Housing	3,046,859	9,143,258
	<b>26,165,460</b>	<b>31,409,358</b>
	<b>86,654,893</b>	<b>85,138,416</b>
<b>Equitable Share</b>		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
<b>Housing</b>		
Balance unspent at beginning of year	1,925,085	1,167,377
Current-year receipts	1,121,773	9,900,965
Conditions met - transferred to revenue	(3,046,858)	(9,143,257)
	<b>-</b>	<b>1,925,085</b>
This grant is used for upgrading informal settlement areas within the Municipality. No funds were withheld		
<b>Financial Management Grant - FMG</b>		
Current-year receipts	1,550,000	1,500,000
Conditions met - transferred to revenue	(1,550,000)	(1,500,000)
	<b>-</b>	<b>-</b>
This grant was used for implementation of MFMA, finance reforms and payment of intern's salaries. No funds were withheld by National.		
<b>Municipal Infrastructure Grant - MIG</b>		
Balance unspent at beginning of year	2,546	-
Current-year receipts	18,342,000	19,320,000
Conditions met - transferred to revenue	(18,338,021)	(19,317,454)
	<b>6,525</b>	<b>2,546</b>
This grant is used for road infrastructure as part of upgrading of infrastructure projects.		

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

	2014 R	2013 R
<b>20. Government grants and subsidies (continued)</b>		

### Small Town Rehabilitation

Balance unspent at beginning of year	-	2,948,646
Current-year receipts	8,000,000	-
Conditions met - transferred to revenue	(4,780,580)	(2,948,646)
	<b>3,219,420</b>	<b>-</b>

This grant is used for development in town like upgrading sidewalks, parkings and storm water drainage. No funds were withheld

### Peoples Housing Project 12 & 13

Balance unspent at beginning of year	26,425	28,879
Current-year receipts	268	289
Conditions met - transferred to revenue	-	(2,743)
	<b>26,693</b>	<b>26,425</b>

This grant is used for upgrading informal settlement areas within the Municipality. No funds were withheld.

### Horseshoe Township

Balance unspent at beginning of year	1,199,600	1,273,030
Current-year receipts	43,725	44,619
Conditions met - transferred to revenue	-	(118,049)
	<b>1,243,325</b>	<b>1,199,600</b>

This grant is used for upgrading informal settlement areas within the Municipality. No funds were withheld.

### MSIG Project Consolidate

Current-year receipts	890,000	800,000
Conditions met - transferred to revenue	(890,000)	(800,000)
	<b>-</b>	<b>-</b>

This grant is used for Ward Committee Participation, by-laws and policies and systems that support local government legislations. Municipal Audit outcome and General Valuation Roll. No funds were withheld.

### Arts and culture

Balance unspent at beginning of year	-	67,830
Current-year receipts	1,461,000	677,000
Conditions met - transferred to revenue	(1,461,000)	(744,830)
	<b>-</b>	<b>-</b>

This grant is used for the provision of staffing costs for Library services within the Municipality. No funds were withheld.

### Sports and Recreation

Balance unspent at beginning of year	3,099	-
Current-year receipts	500,000	150,000
Conditions met - transferred to revenue	(301,504)	(146,901)
	<b>201,595</b>	<b>3,099</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

	2014 R	2013 R
<b>20. Government grants and subsidies (continued)</b>		
This grant is used for upgrading and maintainance of Sports field. No funds were withheld.		
<b>IDP</b>		
Balance unspent at beginning of year	85,673	-
Current-year receipts	-	200,000
Conditions met - transferred to revenue	-	(114,327)
	<b>85,673</b>	<b>85,673</b>
This grant is for IDP compilation and processes.		
<b>Municipal Excellence Award</b>		
Current-year receipts	-	1,000,000
Conditions met - transferred to revenue	-	(1,000,000)
	<b>-</b>	<b>-</b>
<b>EPWP</b>		
Current-year receipts	1,000,000	946,000
Conditions met - transferred to revenue	(1,000,000)	(946,000)
	<b>-</b>	<b>-</b>
<b>Light industrial park</b>		
Current-year receipts	6,127,419	-
Conditions met - transferred to revenue	(6,127,419)	-
	<b>-</b>	<b>-</b>
<b>21. Public contributions and donations</b>		
Donations Received	<b>176,069</b>	<b>1,870,616</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

	2014 R	2013 R
<b>22. General expenses</b>		
Administration	94,111	142,053
Advertising	356,562	781,191
Auditors remuneration	2,921,836	1,682,353
Bank charges	682,529	528,727
Commission paid	232,250	198,512
Computer expenses	-	247,570
Conferences and seminars	32,985	156,419
Consulting and professional fees	1,912,173	3,584,321
Contribution to doubtful debt provision	-	447,333
Collection costs	1,910,321	-
Departmental consumption	1,160,226	1,698,069
Bursaries	391,352	-
Electricity network	1,300,707	835,441
Entertainment	-	143,293
Financial management grant	3,282,639	1,447,733
Fuel and oil	2,634,158	1,848,917
Grant expenses	3,855,104	10,623,954
Indigent subsidy	5,072,498	-
ICT services	531,187	-
Insurance	80,662	222,829
Lease rentals on operating lease	2,326,205	2,141,342
Levies	12,597	14,753
Licence fees	167,390	153,531
Subscription & Publication	1,220,781	2,194,512
Other expenses	8,383,143	26,853,205
Postage and courier	293,888	716,608
Printing and stationery	159,012	571,635
Rental of buildings	387,878	-
Security (Guarding of municipal property)	1,594,901	3,854,210
Stocks and materials	914,183	1,282,458
Telephone and fax	1,316,591	1,165,799
Training	101,991	1,600,170
Transport claims	41,654	69,513
Travel - local	528,578	4,597,993
Uniforms	618,378	351,742
Valuation costs	120,537	458,794
	<b>44,639,007</b>	<b>70,614,980</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

	2014 R	2013 R
<b>23. Employee related costs</b>		
Basic	61,850,124	65,367,572
Bonus	1,069,515	1,175,449
Medical aid - company contributions	294,863	217,661
UIF	732,680	650,536
Defined contribution plans	10,654,099	9,895,771
Travel, motor car, accommodation, subsistence and other allowances	4,173,329	4,491,603
Overtime payments	2,723,467	2,087,119
Long-service awards	1,453,174	726,495
Housing benefits and allowances	1,330,040	1,032,219
Post employment benefits - Actuarial loss	697,039	540,868
Interest on post employment benefit	1,133,225	931,336
Current Service Cost	941,819	553,491
	<b>87,053,374</b>	<b>87,670,120</b>

### Remuneration of Municipal Manager - Mr F.T. Nxumalo 01/07/2013 - 26/09/2013

Annual Remuneration	156,666	617,311
Car Allowance, Cell Allowance	51,011	201,000
Contributions to UIF, Medical and Pension Funds	31,743	125,076
Housing allowance	27,020	106,465
Leave payout	70,149	-
	<b>336,589</b>	<b>1,049,852</b>

### Remuneration of Municipal Manager - Mr Z. Mkhize 05/02/2014 - 30/06/2014

Annual Remuneration	275,089	617,311
Car Allowance, Cell Allowance	127,670	201,000
Contributions to UIF, Medical and Pension Funds	-	125,076
Housing allowance	14,795	106,465
	<b>417,554</b>	<b>1,049,852</b>

### Remuneration of Chief Finance Officer

Annual Remuneration	498,000	495,119
Car Allowance, Cell Allowance	267,986	266,281
Contributions to UIF, Medical and Pension Funds	78,414	78,198
Housing allowance	-	21,232
	<b>844,400</b>	<b>860,830</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

	2014 R	2013 R
<b>23. Employee related costs (continued)</b>		
<b>Remuneration of Corporate Service Manager</b>		
Annual Remuneration	498,000	337,735
Car Allowance, Cell Allowance	134,400	58,368
Contributions to UIF, Medical and Pension Funds	92,000	139,608
Leave payout	-	22,008
Housing allowance	120,000	20,000
Annual bonus	-	15,657
	<b>844,400</b>	<b>593,376</b>
<b>Remuneration of Social Development Manager</b>		
Annual Remuneration	515,358	512,882
Car Allowance, Cell Allowance	178,339	177,339
Contributions to UIF, Medical and Pension Funds	93,715	92,390
Housing allowance	56,988	56,988
Acting Allowance	35,529	-
	<b>879,929</b>	<b>839,599</b>
<b>Remuneration of Infrastructure Planning and Development Manager</b>		
Annual Remuneration	498,000	499,459
Car Allowance, Cell Allowance	177,600	175,500
Contributions to UIF, Medical and Pension Funds	108,800	108,807
Housing allowance	60,000	60,173
	<b>844,400</b>	<b>843,939</b>
<b>24. Remuneration of councillors</b>		
Mayor	663,759	632,150
Deputy Mayor	534,973	509,495
Speaker	534,973	509,495
Executive Committee Member	224,561	189,538
Councillors	1,614,830	1,445,684
Councillors' pension and medical aid contributions	285,216	296,327
Councillors allowances	696,598	685,544
	<b>4,554,910</b>	<b>4,268,233</b>

### In-kind benefits

The Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. The Mayor is provided with an office and secretarial support at the cost of the Council.

The Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Mayor has use of a Council owned vehicle for official duties.

The Mayor and the Deputy Mayor and speaker each have the use of separate Council owned vehicles for official duties.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

	2014 R	2013 R
<b>25. Depreciation and amortisation</b>		
Property, plant and equipment	38,861,188	33,064,161
Intangible assets	39,084	160,538
	<b>38,900,272</b>	<b>33,224,699</b>
<b>26. Finance costs</b>		
Borrowings	1,562,465	1,092,008
<b>27. Bulk purchases</b>		
Electricity	60,069,549	61,779,836
<b>28. Debt impairment</b>		
Debt written off	12,762,825	13,228,124
<b>29. Cash generated from operations</b>		
Surplus (deficit)	29,856,572	(20,546,335)
<b>Adjustments for:</b>		
Depreciation and amortisation	38,899,636	33,224,699
Gain sale of assets and liabilities	-	(423,905)
Fair value adjustments	-	810,514
Debts written off	12,762,825	13,228,124
Movements in retirement benefit assets and liabilities	1,899,648	1,364,321
Movements in provisions	1,659,299	398,157
Recovery of provision for impairment	-	(1,558,372)
Donations of halls	-	(1,870,616)
Transfer out of accumulated surplus	-	40,696
Inventories	63,058	29,825
Trade and other receivables from exchange transactions	(8,221,107)	(11,276,782)
Other receivables from non-exchange transactions	(702,214)	672,575
Prepayments	(321,882)	123,046
Payables from exchange transactions	(22,315,500)	15,912,479
VAT	(453,087)	395,996
Unspent conditional grants and receipts	1,540,801	(2,243,333)
Consumer deposits	189,916	487,919
	<b>54,857,965</b>	<b>28,769,008</b>
<b>30. Unauthorised expenditure</b>		
<b>Reconciliation of unauthorised expenditure</b>		
Opening balance	29,317,896	-
Unauthorised expenditure current year	-	29,317,896
Approved by Council or condoned	(29,317,896)	-
<b>Unauthorised expenditure awaiting authorisation</b>	<b>-</b>	<b>29,317,896</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

	2014 R	2013 R
<b>31. Fruitless and wasteful expenditure</b>		
<b>Reconciliation of fruitless and wasteful expenditure.</b>		
Opening balance -	261,004	76,949
Fruitless and wasteful expenditure current year	493,315	261,004
Condoned or written off by council	(337,953)	(76,949)
<b>Fruitless and wasteful expenditure awaiting condonement</b>	<b>416,366</b>	<b>261,004</b>

Fruitless and wasteful expenditure consists of :

Sars Penalties	272,250	-
Eskom Interest	141,736	-
KZN Natal Joint	3,073	-
Litigation	75,220	-
MEPF Late payment penalties	1,036	-
	<b>493,315</b>	<b>-</b>

## 32. Additional disclosure in terms of Municipal Finance Management Act

### Contributions to organised local government

Current year subscription / fee	796,572	623,168
Amount paid - current year	(796,572)	(623,168)
	-	-

### Audit fees

Current year subscription / fee	2,921,836	828,676
Amount paid - current year	(2,921,836)	(828,676)
	-	-

### PAYE and UIF

Current year subscription / fee	10,581,479	8,693,913
Amount paid - current year	(10,581,479)	(8,693,913)
	-	-

### Pension and Medical Aid Deductions

Current year subscription / fee	20,817,039	14,367,953
Amount paid - current year	(20,817,039)	(14,367,953)
	-	-

### Councillors' arrear consumer accounts

No Councillors had arrear accounts outstanding for more than 90 days at 30 June 2014.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

	2014 R	2013 R
<b>33. Commitments</b>		
<b>Approved and Contracted for</b>		
• Infrastructure	16,584,617	23,764,768
• Community	32,479,913	33,186,791
	<b>49,064,530</b>	<b>56,951,559</b>
<b>Approved but not yet contracted for</b>		
• Property, plant and equipment	11,681,000	11,681,000
• Investment property	1,200,000	1,200,000
	<b>12,881,000</b>	<b>12,881,000</b>
<b>This expenditure will be financed from:</b>		
• Government Grants	56,134,998	64,022,027
• Own Resources	5,810,532	5,054,968
	<b>61,945,530</b>	<b>69,076,995</b>
<b>34. RETIREMENT BENEFITS AND LONG SERVICE AWARD</b>		
<b>Defined benefit plan</b>		
The plan is a post employment medical benefit plan.		
<b>Post employment health care benefits</b>		
Present value of the defined benefit obligation - Wholly unfunded	(11,242,937)	(10,242,188)
Net actuarial gains or losses not recognised	(762,602)	(269,775)
Current service cost	(443,981)	(313,886)
Interest cost	(941,280)	(778,732)
Contributions	423,840	361,644
	<b>(12,966,960)</b>	<b>(11,242,937)</b>
<b>Long service awards</b>		
Opening balance	(2,855,710)	(2,492,138)
Net actuarial gains or losses not recognised	65,563	(271,093)
Current service cost	(497,838)	(239,605)
Interest cost	(191,945)	(152,604)
Contributions	448,595	299,730
	<b>(3,031,335)</b>	<b>(2,855,710)</b>
<b>The amounts recognised in the statement of financial position are as follows:</b>		
Opening balance	(14,098,647)	(12,734,326)
Net actuarial gains or losses not recognised	(697,039)	(540,868)
Current service cost	(941,819)	(553,491)
Interest cost	(1,133,225)	(931,336)
Contributions	872,435	661,374
	<b>(15,998,295)</b>	<b>(14,098,647)</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

2014	2013
R	R

### PeHCL Report

#### Key Financial Assumptions

Summarises the key financial assumptions used for the liabilities at the Valuation Date and the expense figures for the ensuing year.

*Key financial assumptions*

Assumption	Value p.a.
Discount rate	8.94%
Health care cost inflation rate	8.15%
<i>Net effective discount rate</i>	0.73%

The next contribution rate increase is assumed to occur at 1 January 2015.

#### Key Demographic Assumptions

Summarises the key demographic assumptions used.

*Key demographic assumptions*

Assumption	Value		
	Age	Females	Males
Average retirement age		63 for males; 58 for females	
Continuation of membership at retirement		100%	
Proportion assumed married at retirement		90%	
Proportion of eligible current non-member employees joining the scheme by retirement		30%	
Mortality during employment		SA 85-90	
Mortality post-retirement		PA(90) -1	
Withdrawal from service (sample annual rates)	20	24%	16%
	30	15%	10%
	40	6%	6%
	50	2%	2%
	>55	0%	0%

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

2014 R	2013 R
-----------	-----------

### *Current-service and Interest Costs*

	Year ending 30/06/2014	Year ending 30/06/2015
Current-service Cost	497,838	311,012
Interest Cost	191,945	232,598

### *Actuarial Gains and Losses*

<b>Actuarial (Gain)/Loss for the period</b>	<b>(64,563)</b>
Contribution to Actuarial Gain:	
Basis changes: increase in net discount rate	(84,355)
Salary increases higher than assumed	42,310
Changes to Membership profile different from assumed	(22,518)

### *History of liabilities and assets*

	30/06/2010	30/06/2011	30/06/2012	30/06/2013	30/06/2014
<i>Accrued Liability</i>	1,755,696	2,103,773	2,492,138	2,855,710	3,032,335
Fair value of plan asset	0	0	0	0	0
<b>Surplus / (Deficit)</b>	<b>(1,755,696)</b>	<b>(2,103,773)</b>	<b>(2,492,138)</b>	<b>(2,855,710)</b>	<b>(3,032,335)</b>

### *History of experience adjustments: (Gains) and Losses*

	Year ending 30/06/2011	Year ending 30/06/2012	Year ending 30/06/2013	Year ending 30/06/2014
<i>Liabilities: (Gain) / Loss</i>	5,516	92,965	266,246	19,792
Assets: Gain / (Loss)	0	0	0	0

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

2014 R	2013 R
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### *Sensitivity Analysis on the Unfunded Accrued Liability (in R Millions)*

<b>Assumption</b>	<b>Change</b>	<b>Liability</b>	<b>% change</b>
<b>Central assumptions</b>		3.032	
<b>General salary inflation</b>	+1%	3.248	7%
	-1%	2.838	-6%
<b>Discount Rate</b>	+1%	2.827	-7%
	-1%	3.265	8%
<b>Average retirement age</b>	-2 yrs	2.759	-9%
	+2 yrs	3.346	10%
<b>Withdrawal rates</b>	-50%	3.777	25%

### *Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30 June 2014*

<b>Assumption</b>	<b>Change</b>	<b>Current-service Cost</b>	<b>Interest Cost</b>	<b>Total</b>	<b>% change</b>
<b>Central assumptions</b>		497,800	191,900	689,700	
<b>General salary inflation</b>	+1%	527,500	206,300	733,800	6%
	-1%	471,700	179,000	650,700	-6%
<b>Average retirement age</b>	-2 yrs	444900	168,500	613,400	-11%
	+2 yrs	523100	211,600	734,700	7%
<b>Withdrawal rates</b>	-50%	634,700	242,600	877,300	27%

### *Sample withdrawal rates*

Age	Females	Males
20	24%	16%
25	18%	12%
30	15%	10%
35	10%	8%
40	6%	6%
45	4%	4%
50	2%	2%
> 55	0%	0%

### *Promotional salary scale*

<b>Age band</b>	<b>Additional promotional scale</b>
20 – 25	5.0%
25 – 30	4.0%
30 – 35	3.0%
35 – 40	2.0%
40 – 45	1.0%
> 45	0.0%

# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Notes to the Annual Financial Statements**

	2014	2013
	R	R

### **35. CONTINGENT LIABILITIES**

The municipality is involved in the following litigation issues as stated in the table on the next page.

The municipality's lawyers and management consider the probability of the action against the municipality being successful as unlikely.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

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### LITIGATION MATTERS AS AT JUNE 2014

No.	Type	Issue	Parties	Municipal Lawyer	Instruction Date	Financial Implications	Status
<b>GENERAL CIVIL LITIGATION</b>							
1.	Construction Industry Development Board (CIDB) Hearing	Alleged Irregular Award of Tender of Phase 3 Road Construction.	CIDB v GKM	Matthew Francis Inc. Suite 1, 2 <sup>nd</sup> Floor 221 Pietermaritz Street P.O. Box 2177 Pietermaritzburg 3200 Tel: 087 351 0600	11/08/2010	R100 000	CIDB was scheduled to sit on 27 November 2013 for trial.  <i>A written confirmation of the ruling with a suspended fine shall be sent to the Municipality by CIDB.</i>  Matter is accordingly closed.
2.	High Court Civil Litigation	Improper Township Development (Ext7) by Torgos PTY (ltd)	GKM v Torgos (PTY) Ltd	Matthew Francis Inc. Suite 1, 2 <sup>nd</sup> Floor 221 Pietermaritz Street P.O. Box 2177 Pietermaritzburg 3200 Tel: 087 351 0600	03/11/2010	N/A	In settlement of this matter, Torgos has since offered the selling of the remaining properties, payment of potential profit etc. the Municipality is yet to respond to the offer as at 30 June 2014.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

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3.	High Court Civil Litigation	Shayamoya Landfill Site Rehabilitation Bid Award Objection by MKT Construction (The Unpreferred Bidder)	MKT Construction v GKM	Matthew Francis Inc. Suite 1, 2 <sup>nd</sup> Floor 221 Pietermaritz Street P.O. Box 2177 Pietermaritzburg 3200 Tel: 087 351 0600	04 August 2011	R2 500 000	Final closure of this matter is pending as at 30 June 2014.
4.	High Court Civil Litigation	Electricity Tariffs Dispute (Kokstad Chamber of Commerce on behalf of some businesses)	Kokstad Chamber of Commerce (KCC) et al v GKM	Matthew Francis Inc. Suite 1, 2 <sup>nd</sup> Floor 221 Pietermaritz Street P.O. Box 2177 Pietermaritzburg 3200 Tel: 087 351 0600	19 October 2011	R60 000	On 14 August 2013, Municipal Lawyers advised of the payment of R63 079-24 effected on 12 July 2013  A request on whether this matter has been settled has since been sent to attorneys for response as at 30 June 2014.
5.	High Court Civil Litigation	Breach of contract- Inkunzi Civils	Inkunzi Civils v GKM	Elliot & Walker Attorneys 72 Hope Street Kokstad 4700 Tel: (039) 727 2045	15 November 2007	R1 000 000	On 24 April 2013 a Warrant of Execution against the Municipality attaching Municipal bank account in lieu of R853 000.00 was effected.  The matter is pending finalization as at 30 June 2014.
6.	Damages claim	Demand for return or	Sinkshow Construction	Ndumndum Attorneys 87	26 October 2012	R100 000	As at 30 June 2014, trial date is yet to be set.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

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		payment of construction material	n cc v GKM	Hope Street P.O. Box 1241 Kokstad 4700 Tel: (039) 727 5360			
7.	Land Claims Court matter	Unlawful impounding of livestock by SPCA	Mathokoza Maile & Another v GKM, SPCA et al	Ndumndum Attorneys 87 Hope Street  P.O. Box 1241 Kokstad 4700 Tel: (039) 727 5360	26 October 2012	N/A	As at 25 September 2013, Applicants' Attorneys (Mzila Attorneys) have yet to advise of any outstanding issue.  Closure by Applicants' Attorneys is pending as at 30 June 2014.
8.	High Court	Demand for payment through cession agreement.	Leblanc Jasco T/A Lighting Structures	To be appointed	18 June 2013	R325 986-18	Attorneys demanding payment through cession agreement.
9	Magistrate's Court	Motor Vehicle Accident	Mbulelo Sibiya v GKM	Ndumndum Attorneys 87 Hope Street  P.O. Box 1241 Kokstad 4700 Tel: (039) 727 5360	26 October 2012	R 150 000	A Plea has been filed (Denying Thamsanqa Gwala's alleged employment by the Municipal Council as well as the ownership of the car) and Plaintiff's Attorneys yet to file papers as at 24 February 2014.
10	Magistrate's Court	Motor Vehicle Accident	Hoosen Kharvia v GKM	Ndumndum Attorneys 87 Hope Street  P.O. Box 1241 Kokstad	26 October 2012	R40 000	Pleadings have been finalized and we are awaiting the matter to be set down for trial as at 13 December 2013.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

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11.	Magistrate's Court	Motor Vehicle Accident	Oaks Auto CC v GKM & NC Meggel	4700 Tel: (039) 727 5360 Mfingwana & Associates 29 Barker Street Kokstad 4700 Tel: (039) 727 5307	26 October 2012	R 54 022-28	Attorneys awaiting feed-back from Plaintiff. Due to failure to report by Mfingwana & Associates another Attorney is to be instructed.
12.	Magistrate's Court	Motor Vehicle Accident	M Mfenqa v GKM	Hamman Phohlo Attorneys P.O. Box 487 Kokstad 4700 49 Hope Street (Cnr. Hope & Dower) Kokstad 4700 Tel: (039) 727 3809	26 October 2012	R5000	As at 13 December 2013, Municipal Attorneys awaiting feed-back from Plaintiff's Attorneys regarding the excess amount previously paid to the Plaintiff.
13.	N/A	MVA	Botha & Sutherland Attorneys v GKM	To be instructed	24 April 2013	R53 875-48	Summons received on 25 November 2013. Attorneys to be instructed to defend this matter.
14.	N/A	MVA	CIB Insurance Administrators v GKM	To be instructed	24 April 2013	R9 975-00	Attorneys to be instructed to defend this matter.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

	2014 R	2013 R
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### 36. Related parties

There are no related party transactions that required disclosure for the current financial year.

### 37. Events after the reporting date

#### South African National Regulator

NERSA approved 7.39% increase in municipal electricity tariffs. There will no affect on revenue as the budget was estimated on 7.39% NERSA application.

### 38. Non Compliance With CIBD

Construction of ward 4 community hall	-	2,756,814
Construction of ward 8 community hall	-	2,880,945
Rehabilitation of Main Street Phase 2	13,195,177	-
	<b>13,195,177</b>	<b>5,637,759</b>

Advertised in 2012/2013 and awarded in 2013/2014.

### 39. Financial instruments disclosure

#### Categories of financial instruments

2014

#### Financial assets

	At amortised cost	Total
Other receivables from non-exchange transactions	1,197,026	1,197,026
Trade receivables	14,326,855	14,326,855
Cash and cash equivalents	13,522,547	13,522,547
	<b>29,046,428</b>	<b>29,046,428</b>

#### Financial liabilities

	At amortised cost	Total
Long term borrowings	1,426,493	1,426,493
Trade and other payables from exchange transactions	27,622,195	27,622,195
Finance lease obligation	7,555,182	7,555,182
Consumer deposits	3,966,280	3,966,280
	<b>40,570,150</b>	<b>40,570,150</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

	2014 R	2013 R	
<b>. Financial instruments disclosure (continued)</b>			
<b>2013</b>			
<b>Financial assets</b>			
	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	835,302	835,302
Consumer debtors	-	19,158,041	19,158,041
Cash and cash equivalents	3,453,711	-	3,453,711
Vat receivables	-	1,135,928	1,135,928
	<b>3,453,711</b>	<b>21,129,271</b>	<b>24,582,982</b>
<b>Financial liabilities</b>			
	At amortised cost	Total	
Long term borrowings	2,890,982	2,890,982	
Trade and other payables from exchange transactions	50,599,621	50,599,621	
Finance lease obligation	9,652,438	9,652,438	
Consumer deposits	3,776,365	3,776,365	
	<b>66,919,406</b>	<b>66,919,406</b>	
<b>Financial instruments in Statement of financial performance</b>			
<b>2014</b>			
	At amortised cost	Total	
Interest income (calculated using effective interest method) for financial instruments at amortised cost	1,049,476	1,049,476	
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	1,562,465	1,562,465	
	<b>2,611,941</b>	<b>2,611,941</b>	
<b>2013</b>			
	At amortised cost	Total	
Interest income (calculated using effective interest method) for financial instruments at amortised cost	427,089	427,089	
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	1,092,008	1,092,008	
	<b>1,519,097</b>	<b>1,519,097</b>	
<b>40. Fair value adjustments</b>			
Investment property (Fair value model)	-	(810,514)	

# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Notes to the Annual Financial Statements**

	2014 R	2013 R
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### **41. Risk management**

#### **Financial risk management**

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

#### **Liquidity risk**

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

#### **Maximum credit risk exposure**

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

### **42. Going concern**

The Municipality is currently in a position of negative liquidity. The amounts due in current liabilities are R44 822 367 and are currently reciprocated by the net cash investments of R 13 928 908.

The Municipality will continue to operate in the foreseeable future by observing internal austerity measures and ensuring further strengthening of internal controls. The Municipality has undergone substantial expenditure in the current year with respect to projects from their own reserves that have led to negative liquidity and year end going concern issues.

In the view of management The Greater Kokstad Municipality will continue to operate as a going concern in the foreseeable future.

Strategies that have been implemented those to be implemented are as follows:

- 1.Re-assesing of the funding of the 2013/2014 capital budget and the outer two(2) Medium Term Revenue and Expenditure.
- 2.Re-asses tariff of charges for 2014/2015 Medium Term Revenue and Expenditure Framework.
- 3.Implement and maintain strict credit control procedures.
- 4.Enhancing Budgetary controls.
- 5.Strict measures on Expenditure.
- 6.Recovery plan being developed with remedial strategies to improve the situation.

### **43. Changes in accounting policy**

The municipality adopted the exempted portion of the following International Accounting Standards for the first time during the financial year 2012/13 in order to comply with the basis of preparation of the Annual Financial Statements as disclosed in Accounting policy 1. These have been implemented retrospectively as at 30 June 2013:

- GRAP 21 - Impairment of non-cash generating Assets

# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Notes to the Annual Financial Statements**

	2014 R	2013 R
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### **43. Changes in accounting policy (continued)**

- GRAP 23 - Revenue from Non exchange Transactions
- GRAP 24 - Presentation of Budget Information in Financial Statements
- GRAP 26 - Impairment of Cash-generating Assets
- GRAP 103 - Heritage Assets
- GRAP 104 - Financial Instruments

The accounting policies were changed in accordance with these new standards of GRAP and restatements was necessary for GRAP 103, Heritage Assets.

A Budget statement has been included in these financial statements to comply with GRAP 24.

The disclosure of Financial Instruments in Note was changed in accordance with GRAP 104.

None of these GRAP standards had an effect on the financial position of the municipality, nor required any additional treatment prepared by GRAP 3.

### **44. New standards and interpretations**

#### **44.1 Standards and interpretations effective and adopted in the current year**

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

#### **44.2 Standards and interpretations issued, but not yet effective**

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods:

GRAP 18 Segment Reporting

GRAP 20 Related Party Disclosures

GRAP 32 Service Concession Arrangements

GRAP 105 Transfer of Function Between Entities Under Common Control

GRAP 106 Transfer of Function Between Entities Not Under Common Control

GRAP 107 Mergers

GRAP 108 Statutory Receivables

The aggregate impact of the initial application of the statements and interpretations on the municipality's annual financial statements is expected to be immaterial:

### **45. FINANCIAL LOSSES**

Municipality instituted investigation in cash collection for the year 2013/14

A loss of R 378 884.20 was identified for the year 2013/14 due to daily shortfalls in banking.

Disciplinary action was instituted against implicated employees and subsequently dismissed due to guilty findings and a criminal case has been opened with authorities.

A case of unfair dismissal has been lodged with the Bargaining Council by two of the affected due to sit on the 21 and 22 July 2014.

Greater Kokstad Municipality initiated audit in all revenue points including Motor Licensing Section for the year 2013/2014.

The investigation is on-going and is expected to be completed in the financial year 2014/2015.

#### **Electricity losses**

The municipality has identified electricity losses in units R 4 560 150.35 with an estimated value of R 3 242 722.91.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

	2014 R	2013 R				
<b>46. Non - Current assets held for sale</b>						
	2014	2013				
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Vacant Land	741,600	-	741,600	741,600	-	741,600

### Reconciliation of non - current assets held for sale - 2014

	Opening balance	Total
Vacant Land	741,600	741,600

### Reconciliation of non - current assets held for sale - 2013

	Opening balance	Total
Vacant Land	741,600	741,600

Assets were sold through open bidding process. Assets awaiting transfer of ownership at the deeds office

## 47. Key sources of estimation uncertainty and judgements

The following areas involve a significant degree of estimation uncertainty:

Useful lives and residual values of property, plant and equipment  
 Present value of defined benefit obligation  
 Provision for doubtful debts  
 Impairment of assets  
 Provision for long term service award.

The following areas involved judgements, apart from those involving estimations disclosed above, that management has made in the process of applying the municipality's accounting policies and that has the most significant effects on the amounts recognised in the financial statements:

Impairment of assets  
 Provisions.

## 48. Irregular expenditure

Opening balance	16,113,378	11,272,666
Add: Irregular Expenditure - current year	2,040,086	16,113,378
Less: Amounts condoned	(16,113,378)	(11,272,666)
	<b>2,040,086</b>	<b>16,113,378</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

	2014 R	2013 R
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### 48. Irregular expenditure (continued)

#### Details of irregular expenditure – current year

Person in service of the state		
Nashua	156,937	-
Broadbil Trading 58	21,750	-
My Girl Sibongile Design	18,106	-
	<b>196,793</b>	-
<b>Extension of scope of work</b>		
Fast Move Electrical	<b>1,843,293</b>	-

Sole Supplier	483,587	434,191
Emergencies	72,529	190,346
One Quote	196,495	16,950
Other Deviations	95,264	120,871
	<b>847,875</b>	<b>762,358</b>

### 49. SCM DEVIATIONS

Sole suppliers	483,587	434,191
Emergencies	72,529	190,346
One quote	196,495	16,950
Other deviations	95,264	120,871
	<b>847,875</b>	<b>762,358</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

**GREATER KOKSTAD MUNICIPALITY**  
**APPENDIX A (NON-AUDITABLE)**  
**SCHEDULE OF EXTERNAL LOANS FOR THE ENDED 30 JUNE 2013**

EXTERNAL LOANS	Loan number	Redeemable Date	Balance at 01	Received during the period	Redeemed / written off during the period	Balance at 30	Carrying Value of Property, Plant & Equipment	Other Costs in accordance with MFMA
			July 2012			June 2013		
<b>LONG-TERM LOANS</b>								
INCA - R 5,800,000.00	12.26%	934-528050	30/06/2016	3,520,262	-	(629,282)	2,890,980	
<b>Total long-term loans</b>				<b>3,520,262</b>	<b>-</b>	<b>(629,282)</b>	<b>2,890,980</b>	
<b>TOTAL EXTERNAL LOANS</b>								
				<b>3,520,262</b>	<b>-</b>	<b>(629,282)</b>	<b>2,890,980</b>	
<b>Short term portion of Long term Loans</b>								
Dec 13				340,146.66		340,146.66		
Jun 14				365,681.54		365,681.54		
				<b>705,828.20</b>		<b>705,828.20</b>		

# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Supplementary Information**

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# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Supplementary Information

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GREATER KOKSTAD MUNICIPALITY APPENDIX B (NON-AUDITABLE) ANALYSIS OF PROPERTY PLANT AND EQUIPMENT FOR THE YEAR ENDED 30 JUNE 2013 COST /REVALUATION									ACCUMULATED DEPRECIATION						
	Opening Balance	Prior year adjustments	Revised opening	Additions	Under Construction	Other Changes and movements	Disposals	Transfers	Closing Balance	Restated Opening Balance	Additions	Depreciation	Other Changes and movements	Closing Balance	Carrying Value
Buildings	127,559,991	-2,783,200	124,776,791	-	-	-	-	-591,600	124,185,191	-79,542,392	-	-1,915,322	-	-81,457,714	42,727,477
Infrastructure	511,241,364	-	511,241,364	3,424,007	-	-	-	-	514,665,371	-161,306,887	-	-25,122,030	-	-186,428,917	328,236,454
Community Assets	114,523,508	2,457,000	116,980,508	1,870,616	-	-	-	-150,000	118,701,124	-79,751,599	-	-2,509,631	-	-82,261,230	36,439,893
Assets under Construction	20,522,865	2,113,842	22,636,707	36,375,730.13	-	-	-	-3,424,007	55,588,430	-	-	-	-	-	55,588,430
Other Assets	19,138,818	-	19,138,818	6,162,563	-	-	-	-	25,301,382	-8,849,163	-	-2,101,220	-	-10,950,383	14,350,999
Motor Vehicles	5,721,190	-49,500	5,671,690	2,541,564	-	-	-	-	8,213,254	-1,349,412	-	-1,415,958	-	-2,765,370	5,447,884
Non-current Assets Held For Sale	798,707,736	1,738,142	800,445,878	50,374,480	-	-	-	-4,165,607	846,654,752	-330,799,454	-	-33,064,161	-	-363,863,614	482,791,137
Investment Property	-	-	22,971,818	22,971,818	-	-	-810,514	-	741,600	-	-	-	-	-	741,600
Heritage	1,226,325	-	1,226,325	6,000	-	-	-	-	22,161,304	-	-	-	-	-	22,161,304
Intangible assets	2,180,556	-	2,180,556	-	-	-	-	-	1,232,325	-	-	-	-	-	1,232,325
									2,180,556	-1,980,908	-	-160,538	-	-2,141,446	39,110

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Supplementary Information

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	2012/2013	Opening Balance	Additions	Other changes or movements	Disposals/Transfers	Impairment	Closing Balance
Buildings		45,234,399			-591,600	-1,915,322	42,727,477
Infrastructure		349,934,477		3,424,007	-25,122,030	328,236,454	
Community Assets		37,228,909		1,870,616	-150,000	-2,509,631	36,439,893
Assets under Construction		22,636,707		36,375,730	-3,424,007	-	55,588,430
Other Assets		10,289,655		6,162,563	-	-2,101,220	14,350,999
Motor Vehicles		4,322,278		2,541,564	-	-1,415,958	5,447,884
		<b>469,646,425</b>		<b>59,374,480</b>	<b>-</b>	<b>-4,165,607</b>	<b>-33,064,161</b>
							<b>482,791,137</b>

  

	2011/2012	Opening Balance	Correction of error	Additions	Other changes or movements	Disposals/Transfers	Impairment	Closing Balance
Buildings		49,523,409	-2,783,200	396,310		-1,902,120	45,234,399	
Infrastructure		283,513,544	-49,500	17,817,931		-31,017,610	270,264,165	
Community Assets		27,239,353	79,620,831	9,633,935		-2,101,378	114,392,741	
Assets under Construction		17,260,834	2,457,000	29,286,338	(28,557,890)	-	20,446,282	
Other Assets		7,855,403	-1,062,730	5,903,504	1,170,195	(235,096)	-3,146,649	10,484,657
Motor Vehicles		2,269,925	4,647,425	4,164,311	-	(15,950)	-2,046,611	9,019,203
		<b>387,662,471</b>	<b>-</b>	<b>82,829,826</b>	<b>67,202,329</b>	<b>1,170,195</b>	<b>-28,808,906</b>	<b>-40,214,468</b>
								<b>469,841,447</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Supplementary Information

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GREATER KOKSTAD MUNICIPALITY APPENDIX B (NON-AUDITABLE)									
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT FOR THE YEAR ENDED 30 JUNE 2012									
	COST REVALUATION						ACCUMULATED DEPRECIATION		
	Opening Balance	Additions	Under Construction	Assets fair valued	Assets Donated	Disposals	Transfers	Closing Balance	
Buildings	127,361,950	198,000						127,559,950	
Infrastructure	713,047,792	18,016,242	-					731,064,034	
Heritage Assets	1,226,325							1,226,325	
Community Assets	104,889,573	9,633,935	-					114,523,508	
Assets under Construction	17,260,634	31,217,628				-28,672,157	19,806,305		
Other Assets	19,901,721	10,043,200			-5,084,912	-28,672,157	24,860,008		
	983,688,195	69,109,004	-	-	-	1,019,040,131		-584,284,152	
								4,833,899	-40,983,468
									-620,433,721
									398,606,410